



FINMAN



Important Tax Changes

We have recently been informed of some important tax changes coming up, which we would like to keep you updated on. Please take the time to read the below information, and if you have any queries on how these changes may affect you, please give us a call to discuss.

Tax Payment Reminders

Please be aware that the Inland Revenue Department have started sending out tax payment reminders. We will also continue to send out letters to remind you of payments that are due.

Changes to FBT Rules on Motor Vehicles

Currently close companies providing a motor vehicle for the private use of shareholder-employees must pay FBT on the value of the benefit provided. This value is based on the availability of the vehicle rather than its actual private use and this means higher FBT compliance costs for close companies.



New Option for Close Companies

The recently introduced legislation changes this for the 2018 tax year (i.e. from 1 April 2017 for standard balance date taxpayers). Under the new rules close companies, ie companies with 5 or less shareholders, which provide one or two vehicles to shareholder-employees can elect to use the motor vehicle expenditure rules instead of paying FBT. This would mean that, like sole traders and partnerships, close companies can measure the business use of a motor vehicle and calculate the tax deductions allowable for motor vehicle expenditure based on business use.

What You Need to Do

You will need to keep a vehicle logbook for three months every three years. So at close of business on 31 March, record your starting odometer reading and then your business travel for three months. At the end of three months record your closing odometer reading. Let us know what the calculation is and we can advise what percentage you are to use for your claim. If your business use is low on the vehicle it might be that you are best to stay with the original FBT rules. Once this has been done we need to make an election to the IRD to use the new rule on this vehicle. This election stays with the vehicle until the company sells it.

Alteration to Motor Vehicle Deduction Claims on Mileage Basis

If you claim your deductions on business mileage of your vehicle the IRD have now updated the policy on the amount you can claim. Currently you could only claim up to 5,000 kilometres of business use. Now it is based on the total mileage the vehicle travels multiplied by the business use. The 'two tier' calculation is:

- for the first 10,000 kilometres, the rate is calculated on the proportion of business use for the vehicle (say 60%) multiplied by Inland Revenue's first tier rate (for example 75 cents/km but the IRD will advise the rates each year)
- for every kilometre after that, the rate is calculated on proportion of business use for the vehicle (e.g. 60%) multiplied by Inland Revenue's second tier rate (for example 25 cents/km but again subject to change)

Faster GST Refunds

It is now compulsory for Inland Revenue to provide GST refunds by direct credit to a taxpayer's identified account, resulting in faster GST refunds. Obviously, it's important that Inland Revenue has your correct banking details. Please let us know if you would like us to confirm they have your current account details. From here on, Inland Revenue will only make GST refunds by cheque if they do not have a customer's bank details or if there are extenuating circumstances, such as hardship.

Shareholder Salaries



Under the present rules salaries paid to shareholders need to be either subject to PAYE or treated as a provisional tax payers. You were not supposed to use a combination of both. However, the IRD have not policed this.

From the 2018 year, there will be three options on how to pay shareholder-employees and you will need to make an election into one of the options. These are:

- Treat all income as subject to PAYE;
- Treat all income as excluding PAYE and subject to provisional tax;
- Apply the new split method with employment subject to a mix of both PAYE and provisional tax.

It is expected that most shareholder-employees who are presently receiving PAYE wages will elect into the new split system. Also, some provisional tax payers may elect into this system as well to help with their cashflow. We are waiting for confirmation on how the elect into the new split option will take place. At present this is expected to be a tick box on the shareholder's tax return. Originally it was proposed that it would be an irrevocable election but it now looks like the election will be for a minimum period of 3 years.

Changes to Minimum Wage and ACC Earners Levy

The government has increased the minimum wage from 1 April 2017 to the following rates:

Type of minimum wage	Per hour	8 hour day	40 hour week	80 hour fortnight
Adult	\$15.75	\$126.00	\$630.00	\$1,260.00
Starting-out/Training	\$12.60	\$100.80	\$504.00	\$1,008.00

The ACC earner's levy dropped to \$1.39 per \$100 and the maximum earnings have increased to \$122,063.

If you manually calculate your wages you need to recalculate your PAYE on your employees. Also check that any employees on minimum wage are increased to \$15.75 from 1 April 2017. We can do these calculations for you, just contact our office. Now is also the time to look at your payroll system and talk to us if you want to change to a new electronic system.

Other Changes

- The IRD have removed the 1% monthly incremental late payment penalties for income tax, GST and Working for Families tax credit overpayments. Interest will still be charged on overdue amounts
- Contractors can elect their own withholding tax rate subject to a minimum rate of 20%.
- Contractors not already covered by scheduler payment rules can enter into voluntary withholding tax agreements with payers.

Again, if you have any questions relating to any of the updates in this newsletter, please give us a call.